



UNITED STATES GENERAL ACCOUNTING OFFICE
REGIONAL OFFICE
ROOM 717, GATEWAY II BUILDING
4TH AND STATE
KANSAS CITY, KANSAS 66101

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July 30, 1981

Major General Jay T. Edwards
Commander, Oklahoma City Air
Logistics Center



089256

Dear General Edwards:

Subject: [Inventory Adjustments at the Oklahoma City
Air Logistics Center] (PLRD-81-50)

We have completed our survey of the Center's accounting and physical controls over equipment, supplies, and spare parts inventory. The controls appear to be generally adequate. Accordingly, we plan no detailed review in this area or higher level reporting on the survey results. However, we are bringing to your attention our observations concerning unexplained inventory adjustments.

To bring recorded inventory balances into agreement with physical counts, the Center makes sizable adjustments without fully understanding why the counts and records disagree. This lack may deny the Center's management knowledge to improve its inventory processes or prevent the detection of fraud and abuse. During fiscal year 1980, the Center made about 10,000 adjustments that increased and decreased its recorded inventory in amounts totaling about \$33 million. Researchers had identified reasons for about 5,600 of the adjustments; but, in most unexplained adjustments, the research does not fully cover records and documents available at the Center, even when the discrepancies are large.

In one case, the Center reduced its recorded balance for a turbine blade by \$238,751 without learning what caused the discrepancy. Researchers examined several registers and listings but did not examine the Center's other pertinent records on unconfirmed shipments and credit suspense items, bin records, procurement master

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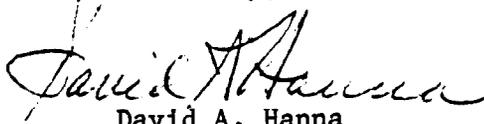
records, or source documents. We reviewed the research made for 58 additional inventory adjustments exceeding \$500 each. Researchers had identified reasons for the discrepancies for only 10 of the adjustments. The 58 adjustments included 8 ranging from \$5,000 to \$20,000. Only one of these was fully explained. Researchers never examined all the records available at the Center to identify causes for any of these unexplained discrepancies. For example, they did not examine source documents for any of the unexplained discrepancies over \$5,000.

One reason researchers gave for limiting research is the 2-week limit for resolving discrepancies between physical and record inventories. When the number of discrepancies is relatively large, as they may be when the counts are wall-to-wall, time to complete the research is insufficient. Another reason was the use of inexperienced researchers. They told us about a training program the Center has planned for teaching researchers a step-by-step method for researching such discrepancies.

We believe that fuller explanations of sizable discrepancies between physical and record inventories could provide Center management with information needed to reduce their frequency. We recognize that some discrepancies cannot be fully explained, but believe the research effort should increase when the discrepancies are large, such as \$5,000 or over.

Because our survey did not cover this area in depth, we are not making a recommendation. However, we will appreciate your comments, including any action you plan as a result of this letter. We will furnish you further details if you wish.

Sincerely,

A handwritten signature in cursive script, appearing to read "David A. Hanna".

David A. Hanna
Regional Manager